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Internal audit activities in 2003

Summary

Since 1997, the secretariat has presented to the Executive Board an annual report on internal audit activities in UNICEF prepared by the Office of Internal Audit (OIA). The present report addresses OIA activities, findings and conclusions covering 2003.

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I. Introduction

1. The Office of Internal Audit (OIA) completed 33 audits in 2003, including two audits of regional offices and one global summary report. Overall, controls in UNICEF country offices were generally satisfactory, although there is scope for improving the management of some aspects of finance and accounts and supply assistance, which were weak in almost half of the country offices audited in 2003. In 2003, UNICEF strengthened the quality and completeness of the guidance issued to country offices to address several areas of common weakness in programme and operations management. However, there is scope for improving the programme and operations support provided by regional offices as well as the regional and global monitoring of country office practices in areas of common weakness.

2. Country offices continue to address audit recommendations in a timelier manner. Since the OIA report for 2002 (E/ICEF/2003/AB/L.11) was issued, most headquarters auditees have addressed the audit observations directed to them, including a number of observations that had remained open for several years.

II. Accountabilities and strategy of the Office of Internal Audit

A. Accountabilities and oversight

3. OIA fulfilled its accountabilities (defined in E/ICEF/1997/AB/L.12) in 2003 through the implementation of an annual office management plan that defined internal improvement priorities, and an audit plan that defined priority locations and issues to be covered in audits during the year. The annual management plan and the audit plan were reviewed by the Audit Committee at the beginning of the year, and progress was monitored at each meeting of the Committee throughout the year.

B. Audit strategy and approach in 2003

4. In 2003, OIA introduced a "Statement of conformity to OIA standards", which is included in audits that meet OIA standards in planning, implementation, and reporting. The standards in these three areas are clearly defined and have been assimilated by OIA staff through orientation sessions over several years. Achievement against the standards is reviewed by team leaders and OIA management after each audit. All but one audit met the high standards in 2003.

5. In 2003, OIA and UNICEF management tested and validated the ratings issued for audits of financial controls and cash assistance to Government. In a one-day exercise, staff from the Division of Financial and Administrative Management (DFAM) and the Division of Policy and Planning (DPP), as well as all regional operations officers, assigned their own ratings to a series of real audit observations. The review group's ratings were generally the same as those given by OIA. This exercise established that OIA ratings generally conform to management's views of expected country office performance.

6. OIA continued to strengthen its linkages with the Evaluation Office. The most significant area of cooperation in 2003 was the development of assessment tools for use in the early stages of emergency contexts. The tools are designed to assess the

functioning of key management practices that one would expect to find in a well-run UNICEF office 90 days after the onset of emergency conditions. The Evaluation Office developed tools for the assessment of programme design and performance, and OIA developed tools to assess operations management — including areas involving staff and office safety and security, financial management, contracting with non-governmental organizations (NGOs) and consultants, and supply assistance and logistics. (The methodology and tools were tested in Liberia with the Evaluation Office in March 2004.)

7. OIA also continued to develop and refine its audit guidelines to reflect changes in UNICEF guidance and the performance expectations established by the relevant divisions in the major audit areas. In 2003, OIA worked with DPP and Programme Division to expand the audit guidelines on programme management to include an assessment of UNICEF activities within the United Nations Development Assistance Framework (UNDAF). New audit guidelines were developed with the Private Sector Division to assess private sector fund-raising and the sale of cards and products in country offices. And new approaches were introduced to strengthen the use of the Programme Manager System (ProMS) and Financial and Logistics System (FLS)-based data in the planning and implementation of country office audits.

8. As part of internal quality assurance, OIA reviewed the adequacy and accuracy of the judgements made by audit staff when assessing auditees' reports of actions to address audit recommendations. The review, which looked at the written replies to over 4,000 recommendations, established that in 97 per cent of the cases the auditors had followed OIA standards for assessing the written statements before closing the audit recommendations. This finding strengthens the basis for the OIA conclusion that the notable increase in the closure of audit recommendations seen in the last three years is due to real improvements in the stated actions of auditees to address the risks identified in internal audits.

9. The OIA database of all audit findings from 2001 to the present is now available to more than 120 headquarters and regional office staff. The database is used by several divisions to raise their awareness of common strengths and weaknesses in country office practices, and it has simplified regional office monitoring of country office actions to address audit recommendations.

10. To strengthen awareness of OIA services and major audit findings among field-based staff, OIA participated in regional management team meetings of the Central and Eastern Europe/Commonwealth of Independent States (CEE/CIS) and the Baltic States as well as East Asia and the Pacific and West and Central Africa; regional meetings of the operations officers in CEE/CIS and the Baltic States and the Middle East and North Africa; and the 2003 global meetings of the officers for regional operations, planning and monitoring and evaluation.

III. Results of work undertaken in 2003

A. Audit coverage

11. OIA completed 33 audits in 2003, against an original target of 39. (See annex 1 for a list of country offices audited in 2003, a summary of the risk ratings by country, and the OIA staff time required to plan, implement, and report each audit.)

Field audit coverage included two follow-up audits to assess on-site the actions taken by two offices to address areas of particular weakness identified in earlier audits. Six headquarters audits were planned for 2003, including two that were carried over from the previous year. Of these six audits, two were completed and issued; two had audit work completed, with the reports still being developed at the end of the year; and two were rescheduled to 2004. The experience gained in 2001-2003 led OIA to refine its coverage target to three headquarters audits per year. One of the three planned summary reports was issued in 2003, and two were rescheduled to 2004.

12. As noted in last year's report, each audit report is made up of a series of observations. An observation comprises: (a) a risk statement that describes why the finding is important and should be addressed; (b) a statement of the facts that were found in the audit; and (c) one or more recommendations to establish control over the identified risk. This approach, which is consistent with current professional audit standards, emphasizes the risks to office performance, each of which may require the implementation of more than one recommendation to control.

13. In 2003, OIA issued 776 risk observations (the OIA rating scale for observations is presented in annex 2). The increase in the number of audit observations from 2002 to 2003 is largely due to gains in audit productivity. Audit teams are covering more issues in the same amount of time through improvements in data collection and familiarity with the audit tools, while quality is maintained through the assurance process applied before the statement of conformity to OIA standards is issued.

Table 1
Audit coverage, 2002 and 2003

	2002	*2003*
Total audits	36	33
Field office audits	32	30
Total risk observations issued in audit reports	690	776

14. It is important to note that a positive observation is awarded when all aspects of a particular work process step in an audited area are found to function fully as expected. Each work process step includes from several to dozens of management practices, and all must function well before a positive observation is issued. Conversely, when even one practice is below standard in a work process step, a positive observation is not made.

Table 2
Audit observations by level of risk, 2002 and 2003

	2002		2003	
	Number	*percentage*	*Number*	*percentage*
High risk	176	(26)	120	(15)
Medium risk	507	(73)	656	(85)
Low risk	7	(1)	0	
Total risk observations	690		776	
Positive practice observations	244		248	

15. There are no scientific criteria for determining the risk rating that is assigned to each observation. Each rating is drafted by an audit team leader and reviewed as part of the report-finalization process by a senior internal auditor and the Director of OIA. As noted in paragraph 5, there is general agreement between OIA and UNICEF management on the level of risk that OIA assigns to its observations.

16. In 2003, OIA continued the practice of ensuring that draft audit reports are issued and discussed before an audit team leaves a field location. This is a very demanding standard but one that has contributed to an acceptance rate of almost 100 percent of OIA audit observations. Following several years of continual improvement, in 2003, the average time to release final audit reports after the end of field work remained the same as in 2002. The average period, which is 15 weeks, is approaching the maximum level of efficiency, given staff travel schedules and other assignments. However, OIA continues to seek opportunities to reduce the average release period.

B. Field offices

17. The standard scope of audits established in 2002 was maintained in 2003. Virtually all field audits included a detailed assessment of the core control areas of finance and programme management. Additional areas were selected for audit following a review of each office's performance data to identify areas of potentially significant risk. In 2003, most field audits included reviews of cash assistance and supply assistance as well as a pilot test of the audit guidelines for ProMS and general information technology (IT) controls. Individual audits also covered other areas that were relevant to the circumstances. In 10 offices, these areas included fund-raising and donor reporting.

Programme management

18. Twenty-five field audits reviewed the existence and functioning of the basic programme management practices that UNICEF considers necessary to support an office in achieving its programme objectives. The audit guideline is refined annually through consultations with DPP, Programme Division, the Organization Learning and Development Section of the Division of Human Resources (DHR), and the Evaluation Office. In addition, a version of the guideline is included in the UNICEF programme policy and procedure manual as a self-assessment tool for country offices. In 2003, the audit guidelines were expanded to address UNICEF

programming within the UNDAF for use in countries that have completed an UNDAF, and this element was pilot-tested in two countries.

19. Each audit assessed these areas: how an office defines and ensures the quality of its annual programme plans; the functioning of the office governance process to ensure that attention is paid to programme and office priorities; management's monitoring of office performance; the functioning of programme monitoring and evaluation systems; staff capacity and training in core programme management skills; and the accuracy of the performance reports presented to headquarters and the regional offices. The existence of these management practices does not assure that an office will achieve its objectives, and weak practices do not imply failure. However, it is reasonable to expect that offices that do have positive practices in these areas have a higher likelihood of overall success than those that do not.

20. In 18 (72 per cent) of the 25 audited offices, the risk management practices were found to be satisfactory, while the practices in 7 offices were rated unsatisfactory. This is an improvement over the level found in 2002, when 44 per cent of the audited offices had satisfactory risk management practices.

21. Table 3 shows the percentage of offices for which more than one audit observation was issued in 2002 and 2003 in each of the six audited areas of basic programme management. As seen in the table, the profile of country office practices in the areas of office performance monitoring, staff training, and performance reporting improved considerably between the two years. On the other hand, there has been little change in the quality of country offices' practices in annual planning and programme monitoring and evaluation. Sixteen observations were made to offices that did not meet one or more important aspect of UNICEF annual planning standards. Fifteen observations were made to address gaps between UNICEF standards and actual practices for annual monitoring and evaluation plans, and 18 observations were made to offices with weak field monitoring practices.

Table 3
Programme management: percentage of audits with more than one negative observation, by element, 2002 and 2003

Element	*2002* *Per cent of total*	*2003* *Per cent of total*
1. Annual project objectives and annual plans of action	72	68
2. Programme implementation and office performance monitoring	44	24
3. Office governance and role of country management team in programme management	34	28
4. Programme monitoring and evaluation	55	60
5. Annual programme and office management reports	23	4
6. Staff training in programme management and technical subjects	32	0

22. The weaknesses in country office practices for annual planning and for monitoring and evaluation are known in UNICEF, and commitments have been made to address them in the medium-term strategic plan (MTSP) and the Report on the Evaluation Function in the Context of the MTSP (E/ICEF/2002/10). These issues were also noted in the 2002 summary audit report on basic programme management controls. (See paragraphs 60-61 on actions taken to address the recommendations from that audit.)

Finance and accounts

23. A core aspect of each country office audit is the systematic review of the major controls over the commitment, expenditure, and recording of UNICEF funds. Each audit assesses these areas: the existence and functioning of the office's controls for the assignment and exercise of financial authorities; the functioning of the contract review committee; the processing of payments (applying significantly expanded and improved audit testing that was introduced in 2002 and further refined in 2003); the safeguarding of financial instruments and records; the logical access to ProMS; and management's awareness of the functioning of the finance controls.

24. In 2003, these controls were reviewed in 27 field locations. Thirteen offices were found to have satisfactory risk management practices, while the practices in 14 offices were rated as unsatisfactory. The percentage of offices found to be satisfactory had fallen from 67 per cent in 2002 (the year from which the examples were drawn for the validation of the ratings with management described in paragraph 5) to 48 per cent in 2003.

25. In 2003, the audits found that offices' financial advisory committees generally function well and help ensure transparency and quality in supplier selection and contracting processes, that accounts closures are accurate and timely, and that there is adequate custody of offices' financial documents and records. However, there were inconsistencies noted in 18 offices between the financial authorities defined by the head of the office and the authorities that are actually established in ProMS. In 26 offices, one or more risks in the practices for payment processing were found. (In 2004, DFAM initiated an interdivisional project to revise the guidance to country offices for the assignment and segregation of financial control responsibilities.) Thirteen offices had weaknesses in their ProMS access and edit controls that affected the security of some aspects of the system, and six offices had observations related to their bank account reconciliation practices.

26. In most of the weak areas, the offices had defined appropriate procedures but office management was not monitoring the functioning of the procedures, and there were weaknesses in their implementation (see paragraphs 41-42).

The management of programme inputs (cash, supplies, consultancies)

27. In order to examine programme inputs, OIA assessed each office's performance data, reports, and initial audit questionnaires (introduced in 2003); held discussions with headquarters and regional office staff; and conducted interviews within the audited office. OIA then examined one or more of the three key means through which the country office plans, commits, and procures programme and office inputs: cash assistance, supply assistance, and consultancy contracts. In 2003, almost all audits covered cash assistance and supply assistance. Only two audits addressed consultancy management because the value of funds expended through

that input in the audited offices was relatively low and the profile of management practices found in the initial risk assessment was generally positive.

28. **Cash assistance.** As in 2002, each audit of cash assistance in 2003 used an audit guideline that was developed with input from DFAM to review the cash assistant to Governments (CAG) planning process, the budgeting for specific activities, the disbursement process, reporting on use by counterparts, and UNICEF field monitoring and assessment of counterparts' use of CAG.

29. A summary report on the findings from 56 audits of cash assistance undertaken in 2001-2003 was issued in 2003. The findings, as well as management actions to address the identified risks, are presented in paragraphs 46-48 and 63.

30. In 2003, cash assistance was reviewed in 21 field audits. The controls were found to be satisfactory in 14 offices and unsatisfactory in 7 offices. As in 2002, the audits found that most offices, even most of those that were rated unsatisfactory overall, have positive practices for planning CAG-supported activities with counterparts and for securing timely financial liquidation statements from counterparts after the funds are used. However, the 2003 audits also found that 16 offices did not receive adequate qualitative information from counterparts on the CAG-supported activities, and 14 offices had weaknesses in their own field-monitoring practices.

31. **Supply assistance.** Supply assistance was reviewed in 20 field locations where it was a significant component of the programme of cooperation. As in 2002, the 2003 audits followed a detailed audit guideline developed in consultation with Supply Division, which supported the systematic assessment of the controls over supply planning, specification development, the identification of suppliers, the contracting process, pre-delivery quality assurance and the receipt of deliveries, and assessing the effectiveness of supply assistance.

32. Among the audited offices in 2003, 55 per cent had a satisfactory rating for supply assistance management, and 45 per cent had an unsatisfactory rating. These percentages are similar to those of the profile seen in 2002, and indicate that there are continuing weaknesses in some areas of country offices' supply management practices. Generally, offices had positive management practices for defining supply specifications with counterparts and for ensuring timely handover of received supplies. The most common risk observations (18) were related to weaknesses in supply planning, such as the lack of supply plans and a high co:icentration of supply requisitions in the last quarter of the year. As with cash assistance management, a high number of audited offices had weaknesses in their field monitoring practices that limited their awareness of the functioning and effectiveness of supply assistance provided by UNICEF.

33. UNICEF management is aware of these common weaknesses and is taking actions to address them. In 2003, Supply Division issued new guidance for supply planning, and guidance on field logistics has been drafted through discussions with field and headquarters staff.

34. **Contracts for services.** Consultancy management practices were audited in two offices in 2003, both of which were found to be satisfactory.

Staff/office safety and security

35. Staff and office safety and security was reviewed in six field offices in 2003, using audit guidelines developed with input from the UNICEF security coordinator. Each audit assessed the office's controls for preparedness planning, maintaining the security of premises and staff residences, access to medical care, emergency telecommunications, and security of electronic data. Overall, controls were found to be satisfactory in each of the six offices.

Fund-raising and donor reporting

36. Fund-raising and donor reporting was reviewed in 10 offices in 2003, using audit guidelines developed with input from the Programme Funding Office (PFO). Seven of the audited offices had satisfactory risk management practices, and 3 offices were found to be unsatisfactory.

37. The profile of common strengths and weaknesses across the 10 offices is similar to that of offices audited in 2002. Six of the 10 offices maintained adequate awareness of the donor funds they had received and used the funds before their expiration dates. The three unsatisfactory ratings were issued because of inadequate attention paid to the quality and timeliness of donor reporting by offices, and weaknesses in their attention to fund-raising. As reported in paragraph 59, PFO initiated actions in the latter half of 2003 to address the common weaknesses in country offices' fund-raising and donor reporting practices.

ProMS and general IT controls

38. In 2003, OIA assessed the ProMS and general IT control practices in 25 country offices, using guidelines that addressed ProMS installation, use, and logical access control as well as IT system planning, procurement, use, and maintenance.

39. Of the 25 offices, 73 per cent were found to have satisfactory risk management practices and 28 per cent had unsatisfactory practices. The latter group shared common weaknesses in monitoring IT performance and planning for business continuity in the event of a disaster. While the country offices accepted all of the identified risks and most have reported actions to address them, the audit guideline was found to have several limitations, particularly in its applicability to small offices. In 2004, the Information Technology Division (ITD) began working with OIA to redesign the guidelines to expand the range of issues to be covered and their relevance to offices of all sizes.

C. Analysis of audit findings: underlying causes from field offices

40. All audit observations are classified by OIA according to an internationally recognized control framework to establish an understanding of the underlying issues associated with the audit findings. The following table shows that over 90 per cent of the control weaknesses identified in 2003 were due to inadequate implementation of defined procedures and insufficient monitoring by office management of the actual functioning of established controls.

Table 4
Major underlying causes for field audit observations in 2003

Reasons for weaknesses in risk management practices	*Per cent of total*
Weak monitoring of the actual functioning of established controls	70
Office staff not following defined procedures	23

41. While in 2002 a large number of field offices lacked defined procedures and standards for field monitoring, the number of offices having such locally defined procedures rose in 2003 following the issuance of global guidance. However, many offices with newly defined standards had not fully internalized them by the end of 2003, and the underlying cause shifted from being a lack of guidance to being weak monitoring of the use of the established standards. A number of offices also had weaknesses in monitoring performance of the IT function and in monitoring modifications made to the ProMS supplier and payee tables.

42. Weak implementation of established procedures was the underlying cause for observations made in 2003 related to inadequate project cooperation agreements with NGOs, incorrect CAG liquidation activities, and weaknesses in data replication and backup.

D. Headquarters locations and systems audits

Regional office programme and operations support to country offices

43. Audits were conducted in the regional offices for Eastern and Southern Africa and West and Central Africa to assess the extent to which these offices were fulfilling their accountabilities for programme and operations support to country offices. The audits found that both offices were actively supporting the development of new country programmes and assisting offices to plan for and operate in emergency conditions. There was also strong support for some aspects of programme monitoring and evaluation.

44. Generally, the audits found that the two regional offices were not adequately engaged in strengthening programme implementation skills and practices among country offices to address the recognized annual planning and field monitoring weaknesses that often exist in country offices. The audit also noted, however, that variations existed in the activities of the two regional offices and that there were notable exceptions among some regional advisers regarding the lack of engagement in strengthening the programme implementation skills and practices of country offices.

45. For office operations, the audits found that, within the context of continual demands for support to emergency situations, the two offices were providing assistance to the offices that appear to need it most. However, there was scope for strengthening the overall support to country offices in cash and supply assistance as well as in finance and accounts.

E. Summary audit report

The management of cash assistance to Government in country offices

46. The summary report was developed through a compilation of findings drawn from 56 field audits implemented from January 2001 to June 2003 and through an assessment of the CAG-related guidance, staff skill-development activities, and the support and supervision activities of regional offices. The summary report noted that most offices have positive practices for planning CAG-supported activities with counterparts and for securing timely financial liquidation statements from counterparts after the funds are used. However, more than 62 per cent of the audited offices released 35 per cent or more of their CAG in the last quarter of the year. This practice may have affected the programmatic impact of this form of assistance, as a high share of supported activities was grouped into a single period of the year. To monitor and help address this common weakness, DFAM developed a new report series in 2003 for headquarters and regional offices that profiles each country office's release of CAG through the year.

47. The summary report also established that 65 per cent of the audited offices did not receive adequate qualitative information from counterparts on the activities that were implemented with the funds, and that 75 per cent of the audited offices had weaknesses in the frequency and quality of their own field monitoring activities. The combination of weak counterpart reporting and limited UNICEF staff knowledge of actual field conditions is a risk to maintaining adequate awareness of the effectiveness of CAG-supported activities.

48. The summary report, which was developed and finalized in close interaction with DFAM, DPP, Programme Division and the regional offices, identified weaknesses in some aspects of the CAG-related guidance, a need to strengthen staff skills in orienting counterparts to the standards and mechanisms for qualitative reporting on the use of CAG, and a need for increased support from regional offices to address common weaknesses. Paragraph 62 describes actions being taken by UNICEF management to address the recommendations in the summary report.

F. Investigation support

49. In 2003, OIA reviewed investigation issues reported by five country offices, conducting one investigation itself and, for four offices, providing technical advice for the implementation of locally managed investigations of minor issues. OIA's investigation capacity was temporarily weakened in the last quarter of the year following the inter-agency transfer of the auditor responsible for investigation issues. This gap has now been filled through the recruitment of a professional investigator with considerable experience from having worked in the anti-corruption unit of a regional development bank.

IV. Implementation of recommendations by management

50. Audited offices continue to strengthen the timeliness and completeness of their actions to address audit recommendations. Actions taken by OIA in 2001-2002 to improve the quality of audit recommendations and the system for monitoring

auditees' actions, combined with the support given to OIA by senior management to stimulate action from late offices, have contributed to this positive profile.

51. OIA assesses auditees' implementation reports and determines if adequate actions have been taken to close the recommendations. In instances where OIA believes that an auditee's actions have not adequately addressed the reported risks, an analysis statement is sent to the auditee commenting on the gaps in actions reported and suggesting additional activity to address the risks.

52. In most cases, OIA relies on implementation reports from auditees to determine if adequate actions have been taken to close the audit recommendations. These written reports are supplemented by follow-up visits to offices in cases where notably elevated risks were identified in an audit. In 2003, follow-up audits were conducted in two offices. Additionally, all country office audits include an assessment of the office's actions to address the recommendations from their previous internal audit, and a validation of the accuracy of the actions is reported to OIA. Such reviews were undertaken in 17 audits in 2003, and in 16 offices it was found that the auditees had accurately reported the actions they had taken. Based on this finding, OIA concludes that in 2003 the country office implementation reports accurately stated the status of the actions they had taken.

53. To maintain assurance over the quality of OIA's review of auditees' implementation reports, an assessment was made in 2003 of closed recommendations from audits issued in 1999-2002. The assessment established that 97 per cent of the recommendations were closed based on adequate documentation. The 3 per cent of recommendations that were closed without adequate documentation were used as examples in division training in 2003 to further strengthen the quality of the review process.

Country office audits implemented in 1999-2002

54. Virtually 100 per cent of the more than 5,000 recommendations from 1999-2001 are reported by the auditees to have been addressed. Their replies have been reviewed by OIA and the recommendations are closed. Of the recommendations issued in 2002, 96 per cent are reported to have been addressed and have been closed by OIA.

Country office audits implemented in 2003

55. As of 1 July 2004, auditees had established adequate control over 82 per cent of the risks identified in the audits completed in 2003. This rate is OIA's summary measure for the timeliness and completeness of auditees' actions. The 82 per cent level for the 2003 audits at the mid-point of the following year shows a continuing advance from the 73 per cent level for the 2002 audits, and the 68 per cent level for the 2001 audits, both levels measured at the mid-point of the year following the audits.

56. The completeness of auditees' actions is also shown in the number of audits followed up with adequate control of all risks and closing of all recommendations. As of 1 July 2004, 13 offices audited in 2003 had established adequate control over all risks identified in their audit reports. This is an improvement over the 7 offices audited in 2002 that had reached the same level of control over risks by 1 July 2003

and an even larger improvement by comparison with the 2001 audits of offices, none of which had completed all actions to close its recommendations by mid-2002.

57. Auditees are taking priority action to address high-risk audit observations. In 2003, 120 high-risk observations were issued, 68 per cent of which were closed within four months as a result of adequate action taken by auditees. And as of 1 July 2004, auditees had established adequate control over 80 per cent of the 120 high-risk observations issued in 2004.

Headquarters audits and summary reports issued in 1999-2001

58. Since OIA's last annual report was published, UNICEF management generally has made good progress in addressing open recommendations from headquarters audits and summary reports issued in 1999-2003, including through paying attention to two areas that had remained open since 1999 and 2000. DHR issued revised guidance for the management of consultancy contracts that addressed all open recommendations from the 1999 audit of consultancy contracting. DFAM's actions have strengthened controls over two of the nine risks identified in the 2000 summary report on bank reconciliation practices in country offices, and there are clear plans to address the remaining risks. Supply Division has established adequate controls over more than 95 per cent of the risks identified in the 2001 audits of their procurement and finance systems and practices, and actions are under way to address the outstanding issues. DFAM has addressed all recommendations from the 2000 audit of rental subsidies.

Headquarters audits and summary reports issued 2002

59. Under the leadership of PFO, actions have been taken to address all 15 risks identified in the audit report of other resources fund-raising from governments and donor reporting, and the outstanding issues are being addressed. DFAM has addressed all of the risks identified in the audit of UNICEF submissions to the United Nations Joint Staff Pension Fund. ITD and several other divisions have taken actions that have led to the closure of all recommendations in the 2002 audit of FLS security and authorization. Actions were taken by the Office of Emergency Programmes in 2002 to address 9 of the 15 observations from the 2002 summary audit report on staff/office safety and security. But while there were significant policy developments and training activities in 2003, the 6 remaining observations (which require coordinated action with the United Nations system) are still open.

60. Good progress has been made on most of the guidance-related issues addressed in the 2002 summary report on basic programme management controls in country offices. DPP has revised the guidance issued to country offices for annual planning and field monitoring, and the Evaluation Office has revised the guidance for the development and use of annual integrated monitoring and evaluation plans. The DHR Organization Learning and Development Section has issued CD-based programme training materials to all field-based professional staff that pays attention to a number of the common weaknesses of country offices presented in the summary report.

61. There has been less progress in addressing the more complex issues of regional office support given to country offices and mechanisms to maintain regional and global awareness of country offices' fulfilment of UNICEF standards for basic programme management practices. The regional offices have reported strengthened

support given to country offices' staff training activities and the development of country programme cycle integrated monitoring and evaluation plans. However, most of the other audit recommendations were accepted but are scheduled for implementation in late-2004 and 2005. UNICEF management is working to clarify the accountabilities for monitoring country office programme management practices.

Headquarters audits implemented in 2003

62. The Eastern and Southern Africa Regional Office (ESARO) and the West and Central Africa Regional Office (WCARO) have initiated actions to address the risks identified in the audits of their programme and operations support to the country offices in their regions. Actions in ESARO have led to the closure of 4 of the 7 audit observations, and WCARO has fully addressed 4 of the10 observations. The remaining observations in both regions are partially addressed, and both offices have presented plans for fully addressing the observations in 2004.

Summary audit report issued in 2003

63. The summary report on the management of CAG in country offices was issued in December 2003. The findings were presented to the global management team in January 2004 by OIA, and Programme Division presented a proposal for practical actions to be taken at headquarters and regional levels to address the issues identified in the report. A formal report on the status of actions has not yet been made, but indications are that activities are under way. Headquarters-level actions are scheduled to be implemented by October 2004.

V. Standards of internal control within UNICEF

64. Based on the 30 field audits implemented in 2003, the conclusion of OIA is that, overall, UNICEF maintained generally satisfactory controls at the country office level for basic programme management, cash assistance, fund-raising and donor reporting, staff/office safety and security, and ProMS and general IT issues. Based on the findings of the audits implemented in 2002-2003 (see Table 6), OIA's conclusion is that there is scope for improving the overall profile of country office management practices, particularly in finance and accounts and in supply assistance.

65. The offices audited in 2003 have reported actions that have addressed 82 per cent of the recommendations issued to them, and, if all other conditions remain as before, the risk management practices in the audited areas of most of the offices are now satisfactory.

Table 5
Summary of risk management ratings by audited area for field offices, 2003

	Offices audited	*Unsatisfactory number of offices*	*per cent*	*Satisfactory number of offices*	*per cent*	*Exemplary*
Finance	27	14	(52)	13	(48)	0
Basic programme management	25	7	(28)	18	(72)	0
Cash assistance	21	7	(33)	14	(67)	0
Supply assistance	20	9	(45)	11	(55)	0
Fund-raising and donor reporting	10	3	(30)	7	(70)	0
Staff safety and security	6	0	(0)	6	(100)	0
IT and ProMS general controls	26	7	(27)	19	(73)	0

66. As noted in several instances in this report, OIA has observed that UNICEF management is taking actions to address a number of the areas of common weakness in country office practices. These actions relate primarily to the quality and completeness of UNICEF guidance for programme and supply planning, field monitoring, and evaluation planning. In addition, guidance for supply logistics and updated guidance on the segregation of duties in financial controls is being developed. However, these recent changes have not yet led to significant improvements in the overall profile of country office practices. The findings from the 30 country office audits and the two regional office audits in 2003 indicate that there is scope for several actions: further advancing the support and supervision regional offices give to country offices to accelerate adoption of positive practices in areas of common weakness; strengthening the regional monitoring of country offices' practices in areas of programme and operations management that are often weak; and enhancing global-level monitoring of regional offices' support activities and global-level awareness of country offices' programme and operations management practices.

Table 6
Summary of unsatisfactory ratings by audited area for field offices, 2002-2003

	2002		*2003*	
	Offices audited	*Per cent unsatisfactory*	*Offices audited*	*Per cent unsatisfactory*
Finance	32	34	27	52
Basic programme management	32	56	25	28
Cash assistance	23	52	21	33
Supply assistance	16	44	20	45
Fund-raising and donor reporting	27	44	10	30

Annex 1

Field audits completed in 2003: risk management ratings and estimated audit staff person-days per audit

			Estimated audit staff person-days				
Audit	*Per cent and number of audited areas rated unsatisfactory*		*Standard preparation period*	*Actual days in the field*	*Standard finalization period*	*Actual editing days*	*Total estimate person-days*
Belarus	60	(3 of 5)	5	9	5	6	25
Burundi	30	(2 of 7)	10	58	10	9	87
Cameroon	50	(3 of 6)	10	50	10	9	79
Central African Republic	50	(3 of 6)	10	50	10	9	79
Chile	25	(1 of 4)	5	20	5	4	34
Côte d'Ivoire	65	(2 of 3)	5	36	5	9	55
Cuba	0	(0 of 4)	5	11	5	4	25
Democratic Republic of the Congo	25	(2 of 8)	10	50	10	10	80
Democratic Republic of the Congo — Goma office	65	(2 of 3)	5	34	5	9	53
Djibouti	0	(0 of 3)	5	24	5	6	40
Dominican Republic	35	(2 of 6)	10	42	10	4	66
El Salvador	0	(0 of 5)	5	11	5	4	25
Guinea	40	(2 of 5)	10	46	10	8	74
Indonesia (follow-up)	0	(0 of 1)	5	5	5	6	21
Kazakhstan	0	(0 of 7)	10	40	10	[illegible]	66
Kenya	50	(3 of 6)	10	65	10	9	110
Kosovo	30	(2 of 7)	10	40	10	5	65
Mozambique	15	(1 of 8)	10	63	10	6	89
Namibia	60	(3 of 5)	5	19	5	6	35
Oman	35	(1 of 3)	5	15	5	8	33
Operation Lifeline Sudan	30	(2 of 7)	10	81	10	8	109
Pakistan	30	(2 of 7)	10	42	10	8	70
Panama	0	(0 of 4)	5	22	5	3	35
Rwanda	40	(2 of 5)	10	52	10	8	80
Senegal (follow-up)	65	(2 of 3)	5	4	5	2	16
Thailand	15	(1 of 7)	5	38	5	8	56
The former Yugoslav Republic of Macedonia	50	(2 of 4)	10	44	10	6	70
Zambia	50	(4 of 8)	10	50	10	9	79
Zimbabwe	50	(4 of 8)	10	46	10	9	75
Supply Services-ESARO	0	(0 of 2)	5	16	5	4	30

Annex 2

Structure and scale for audit ratings

1. Country office audit reports include *observation ratings*, which are applied to each audit observation to indicate its level of importance. They also include *risk management ratings*, which are applied to each audited functional area to summarize the quality of the audited office's performance in managing the risks it faces.

Observation risks

2. Each audit observation is rated to highlight the degree of the threat posed to the achievement of the office's objectives in the audited area. The risk significance ratings are high, medium, and low. Low-risk observations are generally presented in a management memo from the audit team leader to the head of the office. Medium- and high-risk observations are issued by the OIA director in audit reports. The audit reports also include positive observations, which are issued when all aspects of a particular audited area are found to function fully as expected.

3. The rating for each observation is based on OIA's judgement. As noted in paragraph 5, an exercise in 2003 established that there is general agreement between OIA and UNICEF management on the ratings OIA has assigned to observations.

Risk management ratings applied to each audited functional area

4. Each audit report includes risk management ratings that summarize the OIA view of the quality of an office's risk management practices in each of the audited areas. Unsatisfactory ratings do not indicate a supposition of fraud or loss of UNICEF resources. Rather, they indicate that the office's controls over one or more risk to the achievement of its programme and/or procedural and compliance objectives were seriously weak and should be strengthened.

5. OIA uses a three-point scale to rate an office's risk management practices in each audited area:

Exemplary: All controls function as expected and no uncontrolled risks were identified.

Satisfactory: All aspects are generally functioning well. However, one or more medium- (and in some instances high-) level risks were identified that limit the office's potential for achieving the performance and/or compliance objectives of the audited area.

Unsatisfactory: A number of high- or medium-level risks were identified. The frequency and importance of the risks indicate weaknesses in the office's risk management practices that significantly reduce its potential to achieve its performance and/or compliance objectives in the audited area. Priority attention is required by management to establish effective controls.

6. Satisfactory and unsatisfactory risk management ratings are not determined by the specific number of medium- and high-risk observations issued in an audit. However, offices with an elevated number of observations are more likely to receive an unsatisfactory risk rating.